

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Moran Township School		County Mackinac	
Fiscal Year End June 30, 2006		Opinion Date August 9, 2006		Date Audit Report Submitted to State October 24, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

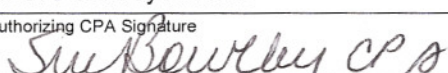
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature 		Printed Name Sue A. Bowlby, CPA		License Number 1101020765

Moran Township School

**Financial Report
with Supplemental Information**

June 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Superintendent and Board of Education
Moran Township School
St. Ignace, MI 49781

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Moran Township School as of and for the year ended June 30, 2006, which collectively comprise the Moran Township School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Moran Township School's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Moran Township School as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Superintendent and Board of Education
Moran Township School

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of Moran Township School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis information and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 9, 2006

Administration's Discussion and Analysis

Moran Township School, a K-8 School District located in Mackinac County, Michigan, has chosen to implement the provisions of Government Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Moran Township School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part; the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported.

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: School Service Funds, which are comprised of Food Service.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-Wide Financial Statements:

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide financial statements.

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2005 and 2006.

Net Assets Summary

	<u>2005</u>	<u>2006</u>
Assets		
Current assets	\$ 412,728	\$ 502,340
Capital assets	2,115,774	2,251,468
Less: Accumulated depreciation	<u>(1,706,744)</u>	<u>(1,669,898)</u>
Capital assets, net book value	<u>409,030</u>	<u>581,570</u>
Total assets	<u>\$ 821,758</u>	<u>\$ 1,083,910</u>
Liabilities		
Current liabilities	\$ 153,901	\$ 163,157
Long-term liabilities	<u>149,486</u>	<u>97,184</u>
Total liabilities	<u>\$ 303,387</u>	<u>\$ 260,341</u>
Net Assets		
Invested in capital assets – net of related debt	\$ 409,030	\$ 581,570
Restricted for sinking fund	146,826	97,239
Unrestricted	<u>(37,485)</u>	<u>144,760</u>
Total net assets	<u>518,371</u>	<u>823,569</u>
Total liabilities and net assets	<u>\$ 821,758</u>	<u>\$ 1,083,910</u>

Analysis of Financial Position

During fiscal year ended June 30, 2006, the District's net assets increased by \$305,198. A few of the significant factors affecting net assets during the year are discussed below:

- The majority of the increase is due to a Sinking fund collection in excess of depreciation.
- Changes for the renovations incurred.

During the 2005/2006 fiscal year, the District continued to implement measures taken during the 2003/2004 and 2004/2005 fiscal years to ensure the continued survival of the Moran Township School District. Those measures included:

- Hiring a part-time superintendent.
- Contracting with the EUPISD for accounting services.
- Contracting with a neighboring district for pupil transportation.
- Maintaining same level of instructional services without adding staff.

A. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2006 depreciation expense was \$17,102.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

B. Capital Outlay Acquisitions

Actual capital acquisitions for fiscal year ended June 30, 2006 were \$189,642.

Combined with the increase in accumulated depreciation, net assets (i.e., net book value) invested in capital assets increased by \$172,540 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

Results of Operations:

For the fiscal year ended June 30, 2005 and 2006 the District wide results of operations were:

	<u>2005</u>	<u>2006</u>
General Revenue:		
Property Taxes levied for General Operations	\$ 836,725	\$ 867,917
Property Taxes levied for Sinking Fund	122,883	135,725
Other – Federal, State and Local	105,125	25,590
Other – Investment Earnings, Fees	<u>10,746</u>	<u>31,270</u>
Total General Revenue	<u>1,075,479</u>	<u>1,060,502</u>
Program Revenue:		
Charges for Services – Local	17,168	14,995
Operating Grants – Federal and State	<u>150,533</u>	<u>85,097</u>
Total Program Revenue	<u>167,701</u>	<u>100,092</u>
Expenses:		
Instruction and Instructional Support	521,667	502,323
Support Services	407,086	286,483
Food Services	42,476	49,488
Depreciation (Unallocated)	<u>19,662</u>	<u>17,102</u>
Total Expenses	<u>990,891</u>	<u>855,396</u>
Changes in Net Assets	252,289	305,198
Net Assets – Beginning	<u>266,082</u>	<u>518,371</u>
Net Assets – Ending	<u>\$ 518,371</u>	<u>\$ 823,569</u>

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 16.8734 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

During fiscal year 2005-2006, the District's Non-Homestead TV was \$50,561,213 as reported to the district by Mackinac County in May, 2005 and as reported by the district on the L-4029. Throughout the year, however, the Non-Homestead TV can be adjusted by the Michigan Tax Tribunal, July or December Township Boards of Review, and/or a Michigan State Tax Commission Official Order. Given the District's 16.8734 mills levied, they anticipated generating \$853,140 from Non-Homestead TV and \$14,780 from other local tax sourcing, ie: delinquent taxes and other tax adjustments. A combination of those amounts was equal to the District's revenue line item budget for fiscal year 2005/2006.

2. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. The District's non-homestead levy

During the 2005/2006 fiscal year, the Moran Township School District did not receive any state funding based on pupil membership, namely Sec. 22a Prop A Obligation and Sec. 2b Discretionary Payment. This was due to the fact that the district's local non-homestead tax collection exceeded the State's per pupil foundation allowance of \$7,008. The Michigan Department of Education also found the Moran Township School District ineligible for At Risk funds because the district exceeded the program's established per pupil funding level.

As a matter of clarification regarding the District's local non-homestead tax collection exceeding the State's per pupil foundation allowance, in 2004 the District solicited a determination from the State of Michigan Department of Education. A letter dated September 14, 2004 from Daniel M. Hanrahan, Director; Office of State Aid responded as follows:

"This is to confirm our phone conversation as of September 13, 2004 concerning a school district whose local revenue per pupil from school operating millage exceeds its per pupil foundation grant. The Department of Treasury was conferenced into the phone conversation. It was concluded, based on an interpretation of Section 1211 of the Revised School Code and past precedent, that a school district in that situation retains the full amount of the local revenue."

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Moran Township School foundation allowance was \$7,008 per student for the 2005-2006 school year. There was \$175 increase per student compared to the 2004-2005 school year.

Student Enrollment:

For the fall student count in September of 2005, the District's student FTE was 77.34 for regular education and 0.34 for special education. The District's annual enrollment has gradually declined over the past five years. The following summarizes the fall student count for each school year indicated:

	<u>Student FTE</u>
2005 – 2006	78
2004 – 2005	88
2003 – 2004	105
2002 – 2003	105
2001 – 2002	117

Subsequent to year end June 30, 2006, the District anticipates an actual increase in student enrollment for the 2006/2007 school year. The anticipated increase is based on the District offering all day kindergarten and allocating more available slots for school of choice students.

4. Food Service Sales to Students & Adults:

During the 2005/2006 school year, the District generated approximately \$13,970 in local revenue for lunches and milk sales and received \$13,810 from the State of Michigan for the School Breakfast and National School Lunch Programs operated by the District. In addition the District received \$553 in State Supplemental Breakfast funds.

The District operates both a breakfast and lunch program under the School Breakfast Program and the National School Lunch Program, federally funded programs administered by the State of Michigan's Department of Education. Michigan school districts are reimbursed at specified rates for each fully paid, reduced price, and free breakfast or lunch meal served to students.

Information contained on the October, 2005 reimbursement claim indicated that 38% of students enrolled in the district that month were eligible for free and reduced lunches. The Moran Township School District's General Fund has subsidized the Food Service program for many years. During the last year, the District's General Fund had to financially assist the District's Hot Lunch Fund to prevent a deficit in the Hot Lunch Fund. In total, the District transferred \$20,129 from the General Fund to the Hot Lunch Fund. This amount reflects an increase over the prior year by \$10,567. Contributing factors of this increase include higher salaries and benefits, a decrease in student enrollment and fewer meals served throughout the year. For the 2006/2007 school year the District plans to review the hot lunch program and make changes that would contribute to a reduction in the amount the District's General Fund needs to transfer to the Hot Lunch Fund.

5. Federal Funding

The Moran Township School District receives a minimal amount of federal dollars under the No Child Left Behind (NCLB) legislation. As the largest federal program supporting elementary and secondary education, Title I targets these NCLB funds to the districts and schools where the needs are the greatest based on poverty. Title I, Part A, for which Moran Township School District was eligible to receive \$3,032 during the current school year, is intended to help ensure that all children have the opportunity to obtain a high-quality education and reach proficiency on challenging state academic standards and assessments. In addition, the district was eligible for other NCLB funds for other specified purposes, namely: Improving Teacher Quality, Technology Literacy Challenge Grant, and Title V which totaled \$7,915 in 2005/2006 allocations and \$6,732 in carryover funds from the 2004/2005 fiscal year.

The Moran Township School District also continued to be eligible for the U.S. Department of Education REAP Small Rural School Achievement Program. This grant is issued in accordance with the provisions of Title VI, Part B, Subpart 1 of the Elementary and Secondary Education Act, as amended. The district was eligible for and did receive \$10,750 during the 2005/2006 school year. Prior to beginning of the 2005/2006 school year, the District submitted and was issued a grant award notification from the U.S. Department of Education for Indian Education (Authority: PL PL 107-110 ESEA as amended by the No Child Left Behind Act of 2001) funds in the amount of \$9,090. These funds were specifically used as stipulated in the original application to purchase supplemental teaching supplies.

6. Student Transportation

2005/2006 was the second year that the Moran Township School District entered into a cooperative agreement with the St. Ignace Area Schools to provide transportation services for Moran's students. This agreement, which originally began in October of 2004, provided the Moran Township School District with a means to reduce the annual expenditures they had been spending on transportation while at the same time providing the same service.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Original Budget</u>	<u>Revenues Variance Actual & Final Budget</u>
2001 – 2002	1,060,024	1,060,024	1,132,046	72,022	72,022
2002 – 2003	1,134,693	1,134,693	1,090,951	(43,742)	(43,742)
2003 – 2004	1,210,519	1,210,519	1,102,094	(108,425)	(108,425)
2004 – 2005	1,143,772	1,050,544	1,087,383	(56,389)	36,839
2005 – 2006	921,900	1,013,626	995,510	73,610	(18,116)

Moran Township School

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2001 – 2002	1,190,871	1,190,871	1,216,073	(25,202)	(25,202)
2002 – 2003	943,294	943,294	959,049	(15,755)	(15,755)
2003 – 2004	1,220,375	1,220,375	1,195,587	24,788	24,788
2004 – 2005	938,585	977,337	946,614	(8,029)	30,568
2005 – 2006	901,944	875,798	845,437	56,507	(30,361)

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Moran Township School amends its budget quarterly during the school year. For the fiscal year 2005-2006, the budget was amended throughout the year. The June 2006 budget amendment was the final budget for the fiscal year. The Moran Township School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

Change from Original to Final Budget:

General Fund Revenues:

Total Revenues Original Budget	\$ 921,900
Total Revenues Final Budget	<u>1,013,626</u>

Increase in Budgeted Revenues	<u>\$ 91,726</u>
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The District's final budgeted general fund revenues differed from final budget by \$91,726, a variance of 9.95%.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 901,944
Total Expenditures Final Budget	<u>875,798</u>
Decrease in Budgeted Expenditures	<u><u>\$ (26,146)</u></u>

As indicated above, the District's original budgeted expenditures were more than final budget by 2.98%.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Administration Office, Moran Township School at 906-643-7970.

Basic Financial Statements

Moran Township School

Statement of Net Assets June 30, 2006

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 487,776
Accounts Receivable	14,024
Inventory	540
Total Current Assets	502,340
Noncurrent Assets:	
Capital Assets	2,251,468
Less: Accumulated Depreciation	(1,669,898)
Total Noncurrent Assets	581,570
 TOTAL ASSETS	 \$ 1,083,910
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 115,514
Accrued Liabilities	47,643
Total Current Liabilities	163,157
Noncurrent Liabilities:	
Accrued Sick Leave Payable	32,962
Accrued Retirement Benefits Payable	64,222
Total Noncurrent Liabilities	97,184
 TOTAL LIABILITIES	 260,341
NET ASSETS:	
Invested in Capital Assets	581,570
Restricted for Sinking Fund	97,239
Unrestricted	101,332
Restricted for Benefits Payable	43,428
TOTAL NET ASSETS	\$ 823,569

Moran Township School

Statement of Activities For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense)
				Revenue and Changes in Net Assets
Governmental Activities:				
Instruction:				
Regular	\$ 463,503	\$ -	\$ 62,432	\$ (401,071)
Special Education	38,820	-	8,855	(29,965)
Supporting Services:				
School Administration	15,258	-	-	(15,258)
General Administration	66,752	-	-	(66,752)
Business	41,344	-	-	(41,344)
Food Services	49,488	14,995	13,810	(20,683)
Operations & Maintenance	83,229	-	-	(83,229)
Pupil Transportation	79,900	-	-	(79,900)
Depreciation - Unallocated	17,102	-	-	(17,102)
 Total Governmental Activities	 \$ 855,396	 \$ 14,995	 \$ 85,097	 (755,304)
 General Revenues:				
Taxes:				
Property taxes, levied for general operations				867,917
Property taxes, levied for sinking fund				135,725
Other income				25,590
Interest and investment earnings				31,270
 Total General Revenues				 1,060,502
 Changes in Net Assets				 305,198
Net Assets - Beginning				518,371
Net Assets - Ending				\$ 823,569

Moran Township School

Balance Sheet Governmental Funds June 30, 2006

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
ASSETS:				
Cash and Cash Equivalents	\$ 380,839	\$ 96,862	\$ 10,075	\$ 487,776
Accounts Receivable	11,711	-	2,313	14,024
Due from Other Funds	12,012	377	-	12,389
Inventory	-	-	540	540
TOTAL ASSETS	\$ 404,562	\$ 97,239	\$ 12,928	\$ 514,729
LIABILITIES:				
Accounts Payable	\$ 115,514	\$ -	\$ -	\$ 115,514
Due to Other Funds	-	-	12,389	12,389
Accrued Liabilities and Expenses	47,104	-	539	47,643
TOTAL LIABILITIES	162,618	-	12,928	175,546
FUND BALANCES:				
Unreserved:				
Undesignated	169,361	-	-	169,361
Designated	-	97,239	-	97,239
Reserved	72,583	-	-	72,583
TOTAL FUND BALANCES	241,944	97,239	-	339,183
TOTAL LIABILITIES AND FUND BALANCES	\$ 404,562	\$ 97,239	\$ 12,928	
Reconciliation to amounts reported for governmental activities in the statement of net assets:				
Capital assets used by governmental activities:				
The cost of the capital assets is			\$ 2,251,468	
Less accumulated depreciation of			(1,669,898)	581,570
Long term liabilities for governmental activities:				
Accrued Sick Leave Payable				(32,962)
Accrued Retirement Benefits Payable				(64,222)
Net assets of governmental activities				\$ 823,569

Moran Township School

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2006

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
REVENUES:				
Local Sources	\$ 924,776	\$ 135,725	\$ 14,995	\$ 1,075,496
State Sources	9,181	-	554	9,735
Federal Sources	61,552	-	13,810	75,362
			-	
TOTAL REVENUES	995,509	135,725	29,359	1,160,593
EXPENDITURES:				
Instruction:				
Regular	515,804	-	-	515,804
Special Education	38,820	-	-	38,820
Supporting Services:				
School Administration	15,258	-	49,488	64,746
General Administration	66,752	-	-	66,752
Business	41,344	-	-	41,344
Operations & Maintenance	60,029	-	-	60,029
Pupil Transportation	79,900	-	-	79,900
Capital Outlay	27,530	185,312	-	212,842
TOTAL EXPENDITURES	845,437	185,312	49,488	1,080,237
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	150,072	(49,587)	(20,129)	80,356
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	20,129	20,129
Operating Transfers Out	(20,129)	-	-	(20,129)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	129,943	(49,587)	-	80,356
FUND BALANCES, JULY 1	112,001	146,826	-	258,827
FUND BALANCES, JUNE 30	\$ 241,944	\$ 97,239	\$ -	\$ 339,183

Moran Township School

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Net Changes in fund balances - total governmental funds	\$ 80,356
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in statement of activities, the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$189,642 exceeded depreciation expense \$17,102.	172,540
---	---------

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of assets.

Principal repayments:

Accrued benefits payouts	<u>52,302</u>
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Changes in net assets of governmental activities	<u><u>\$ 305,198</u></u>
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Moran Township School

Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2006

	<u>Agency Fund</u> <u>Student</u> <u>Activities</u>
Assets	
Cash	\$ <u>4,699</u>
Liabilities	
Due To Clubs and Organizations	\$ <u>4,699</u>

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Moran Township School conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District implemented the provisions of the Statement. The District also implemented GASB#33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

Financial Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

BASIS OF PRESENTATION**District-wide Statements**

The District's basic financial statements include both district-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) except for fiduciary funds. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the district-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The district-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the district-wide financial statements, the District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The various funds are grouped, in the combined financial statements in this report, into generic fund types of broad fund categories as follows:

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Funds – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds.

Capital Project Fund – The Capital Project fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made for the General fund. The School District's Capital Project fund is the Sinking Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund**Major:**

General Fund

Special Revenue Fund:
Food Service FundCapital Projects Fund:
Sinking Fund

There were no Nonmajor Funds.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the district-wide statement uses the economic resources measurement focus.

Note 1 - Summary of Significant Accounting Policies (Continued)**Accrual**

Governmental activities in the district-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Moran Township School taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes which are due September 15.

The tax rates for the year ended June 30, 2006, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	16.8734 per \$1,000 taxable value (Non-Homestead Property Only)
Sinking Fund	1.75 per \$1,000 taxable value (Homestead and Non-Homestead Property)

Note 1 - Summary of Significant Accounting Policies (Continued)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Cash and Investments – For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the District.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Receivables – In the district-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include grants.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The District capitalizes only those assets over \$5,000.

In the district-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Note 1 - Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

Compensated Absences – The liability for compensated absences reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The School District formally adopted General Fund and Special Revenue Funds budgets by function for the fiscal year ended June 30, 2006. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Note 3 - Deposits and Investments**Deposits**

The School District's deposits are deposited in one local financial institution. Deposits are carried at cost.

	<u>Primary</u>	<u>Fiduciary</u>
Deposits per Financial Statements:		
Checking, Savings and		
Certificates of Deposit	\$ <u>487,776</u>	\$ <u>4,699</u>

Investment and Deposit Risk

Interest Rate Risk. Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

Credit Risk. The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$329,782 of the School's bank balance of \$529,782 was exposed to credit risk because it was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Districts deposits are in accordance with state statutes.

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital Assets:				
Land and Buildings	\$ 1,904,140	\$ 179,985	\$ -	\$ 2,084,125
Equipment	157,686	9,657	-	167,343
Buses	<u>53,948</u>	<u>-</u>	<u>53,948</u>	<u>-</u>
Subtotal	2,115,774	189,642	53,948	2,251,468
Less Accumulated Depreciation	<u>(1,706,744)</u>	<u>(17,102)</u>	<u>(53,948)</u>	<u>(1,669,898)</u>
Net Capital Assets	<u>\$ 409,030</u>	<u>\$ 172,540</u>	<u>\$ -</u>	<u>\$ 581,570</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$17,102. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Long-Term Liabilities

The following is a summary of changes in the Long-Term Liabilities for the year ending June 30, 2006:

	Accrued Sick and Vacation	Accrued Employee Retirement	Total
Balance, July 1, 2005	\$ 50,210	\$ 99,276	\$ 149,486
Debt Payments	<u>(17,248)</u>	<u>(35,054)</u>	<u>(52,302)</u>
Balance, June 30, 2006	<u>\$ 32,962</u>	<u>\$ 64,222</u>	<u>\$ 97,184</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2006.

Note 6 - Defined Benefit Pension Plan

Plan Description – The School District participates in the Michigan Public School Employees’ Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, and defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 489019-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District’s contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$57,284, \$32,411, and \$66,739.

Post Employment Benefits – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District’s total contribution to the MPERS plan discussed above.

Note 7 - Interfund Receivable and Payables, and Transfers

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

Interfund Payables:

DUE TO OTHER FUNDS	DUE FROM OTHER FUNDS		
	General Fund	Sinking Fund	Total
Food Service Fund	\$ 12,012	\$ 377	\$ 12,389

Note 7 - Interfund Receivable and Payables, and Transfers

Interfund Transfers:

TRANSFERS IN	TRANSFERS OUT
	General Fund
Food Service Fund	\$ <u>20,129</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 8 - Risk Management

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Accrued Employee Benefits

The district offered its teachers and administrative personnel early retirement incentives. Payments under these programs will be made through the year 2006. A liability for amounts payable in years subsequent to the year ended June 30, 2006 of \$64,222 was recorded.

Note 10 - Commitments and ContingenciesGrants

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2006.

Note 11 - Sinking Fund

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Required Supplemental Information

Moran Township School

Required Supplemental Information Budgetary Comparison Schedule-General Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Local Sources	\$ 864,140	\$ 926,752	\$ 924,776	\$ (1,976)
State Sources	6,500	9,550	9,181	(369)
Federal Sources	51,260	77,324	61,552	(15,772)
TOTAL REVENUES	921,900	1,013,626	995,509	(18,117)
EXPENDITURES:				
Instruction:				
Regular	545,005	535,929	515,804	20,125
Special Education	37,346	39,738	38,820	918
Supporting Services:				
School Administration	-	17,005	15,258	1,747
General Administration	86,663	68,458	66,752	1,706
Business	33,871	42,299	41,344	955
Operations & Maintenance	109,919	62,369	60,029	2,340
Pupil Transportation	65,000	80,000	79,900	100
Capital Outlay	24,140	30,000	27,530	2,470
TOTAL EXPENDITURES	901,944	875,798	845,437	30,361
EXCESS OF REVENUES OVER EXPENDITURES	19,956	137,828	150,072	12,244
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(10,000)	(18,600)	(20,129)	(1,529)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 9,956	\$ 119,228	129,943	\$ 10,715
FUND BALANCE, JULY 1			112,001	
FUND BALANCE, JUNE 30			\$ 241,944	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Superintendent and Board of Education
Moran Township School
St. Ignace, MI 49781

We have audited the financial statements of the governmental activities and major funds for Moran Township School, as of and for the year ended June 30, 2006, which collectively comprise Moran Township School's basic financial statements and have issued our report thereon, dated August 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Moran Township School in a separate letter dated August 9, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moran Township School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain matters that we reported to management of Moran Township School's in a separate letter dated August 9, 2006.

This report is intended solely for the information of the Board of Education, management and federal and state awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 9, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Superintendent and
Board of Education
Moran Township School
St. Ignace, Michigan 49781

We have audited the basic financial statements of Moran Township Schools for the year ended June 30, 2006, and have issued our reports thereon dated August 9, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Moran Township School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Moran Township Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Moran Township Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Moran Township School's financial reporting process (that is, cause future financial statements to be materially misstated.) In our judgment, the adjustments we proposed, whether recorded or unrecorded by the Moran Township School, either individually or in the aggregate, indicate matters that have a significant effect on the Moran Township School's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Moran Township School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

Payroll

Comment – The Michigan New Hire Form was not completed for employees hired after October 1, 1997.

Recommendation – Each employee hired after October 1, 1997 should have a completed Michigan New Hire Form in their personnel file.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit.

This information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 9, 2006